GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1630
ANSWERED ON:02.12.2005
APPOINTMENT OF MD /CHAIRMAN IN BANKS
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Will the Minister of FINANCE be pleased to state:

(a) the policy of Union Government and procedure and criteria adopted in making the appointment of Chairmen, Managing Director and Directors in all the nationalized banks.

(b) whether members on the Board of Directors are also elected; and

(c) if so, the policy and procedure of elections and the likely date of ensuing election in different nationalized banks?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI S.S.PALANIMANICKAM)

(a) Appointment of Directors on the Boards of the nationalized banks is made in accordance with the provisions contained in the Banking Companies (Acquisition and Transfer of Undertakings) Act 1970 & 1980 and the Nationalised Banks (Management & Miscellaneous Provisions) Scheme, 1970 & 1980. In terms of provisions of Section (3) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 & 1980, the Board of Directors of each of the nationalized banks consist of the following:

(i) Two whole time directors - one Chairman and Managing Director and one Executive Director - to be appointed by the Central government after consultation with the RBI;

(ii) One Government director - who is an official of the Central Government - to be nominated by the Central Government;

(iii) One RBI director - who is an officer of the RBI - to be nominated by the Central Government on the recommendations of RBI.

(iv) Two directors from the financial institutions - to be nominated by the Central Government.

(v) One Workman Employee Director - out of the workman employees of the bank - to be nominated by the Central Government in consultation with RBI.

(vi) One Officer Employee Director - out of the officer employees of the Bank - to be nominated by the Central Government after consultation with the RBI.

(Vii) One part-time non-official director - who has been a Chartered Accountant for not less than 15 years`- to be nominated by the Central Government after consultation with the RBI.

(Viii) Not more than six part time non official directors from the general category - to be nominated by the Central Government, However, in the case of those banks which have raised capital by public issue of shares, these six part time non official directors shall be replaced in a phased manner by directors elected by the shareholders other than the Central Government, as indicated below:

(a) where not more than 20 % of the paid up capital is held by the public not more than 2 directors

(b) where more than 20% but not more than 40% of the paid up capital is held by the public not more than 4 directors

(c) where more than 40% of the total paid up capital is held by the public not more than 6 directors

As regards the procedure and criteria for making such appointments, an Appointments Board has been constituted in the Ministry of Finance (Banking Division) for making recommendations for appointment of whole time directors on the boards of public sector banks and financial institutions. Governor, RBI is the chairman of the Board which includes Secretary (DEA), Deputy Governor, RBI, Additional Secretary (FS) [(in the absence of Secretary (FS)] and two outside experts as its members. In addition, there are two sub-committees of the board, one under the chairmanship of the Secretary (DEA) and the other under the Additional Secretary (FS) to interact with short-listed Executive Directors and General Managers respectively and prepare panels of eligible Executive Directors for being appointed as CMDs and general managers for being appointed as Executive Directors. The meetings of the Appointments Board are held from time to time to consider these panels and make recommendations for appointments of persons for filling up existing and anticipated vacancies of CMDs and EDs. The recommendations of the board are processed in the Banking Division and based thereon, the decision to make appointments of whole time directors is taken with the approval of the Finance Minister. After,

obtaining the vigilance clearances in respect of such persons and completion of other formalities, formal proposals for the appointments are submitted to the Appointments Committee of the Cabinet (ACC) for approval. After the receipt of the ACC`s approval and updating of vigilance clearance, wherever required, the appointments are notified by the Government.

(b) & (c) The part time non official Members on the Board of Directors are elected only when a Public Sector Bank raises capital by public issue of shares. Depending on the public holding, a Bank can convene Extra Ordinary General Meeting and elect its shareholder directors.